Hillary’s phony trickle down argument

In the first debate, Hillary Clinton condemned Trump’s economic plan of tax cuts and regulatory relief as “trickle down” economics, the contention that by reducing the top marginal tax rates the middle-class and the poor receive little or no benefit. That argument stems from ignorance of economics and history, yet it has become a popular foil for justifying the kinds of tax increases, government redistribution, and regulatory advance that Hillary Clinton demands.

Cutting taxes leaves in private hands, directed by free will, money that would otherwise go to the government and be spent according to the dictates of politicians and bureaucrats. When large sums of money are left in private hands, particularly in the hands of those who have succeeded in finding ways to satisfy public demand for goods and services, i.e., in the hands of successful business people, it is variously saved, invested or spent. Whether saved, invested, or spent, whether allocated prudently or foolishly, the resulting effect is one of expanding the economic pie, the gross domestic product. When the captain of industry invests in his business, he employs more people, he brings to market more goods and services, he becomes more competitive locally and globally. When he saves, his money expands the lending capacity of those with whom he saves. When the captain of industry spends in the market, he employs more people, he provides more capital for vendors of goods and services, and he helps make the market more competitive locally and globally.

When, on the other hand, the government taxes accumulations of wealth, it creates a disincentive for the productive to remain as productive. It withdraws from the market capital that would otherwise be available to employ more people, bring to market more goods and services, and enable Americans to be more competitive locally and globally. One of the brilliant aspects of a free market is its efficiency in satisfying demand and exploiting opportunities. Government planning, by contrast, has ever been notoriously inefficient, driven not by the verities of the market but by the political choices of those in power. Politicians and bureaucrats have a near perfect track record of miscalculating demand and of wasteful spending (i.e., spending that fails to reach its best and highest use in the market).

Government programs are created to provide benefits to those politically favored, irrespective of those program's ability to satisfy actual consumer demand. Government programs are terribly inefficient, with most funds allocated to the maintenance and expansion of the agencies that receive the funds rather than to the public. Government programs rarely, if ever, result in an expansion of the overall size of the market, i.e., the gross domestic product.

Instead, programs like the Obama Administration's notorious loans to environmental concerns have a remarkably high failure rate because the political ambitions of the administration are at odds with actual market demand. There has yet to be an enormous consumer demand for solar power, and so increased production of solar goods and services made possible by government spending results in market losses, rather than market gains.

The waste generated by government spending of confiscated income produces market dislocation. The tax on productive elements reduces productivity. The regulation of those same elements produces a like effect, or worse (frequently causing a complete shut-down of markets and loss of goods and services). When the most productive become less so, that hurts everyone. It means there are fewer jobs. It means there are less goods and services available. It results in less competition, and it causes the United States to be less prominent in global markets. In other words, we all lose.

Hillary Clinton’s pronouncement that “trickle down” economics injures the middle-class and the poor arises from a fundamental misunderstanding of, or antipathy toward, capitalism. Money does not “trickle down” in the sense that only a small portion of it benefits those in need of employment, in need of money for their businesses, or in need of market opportunities. Rather, the entire amount left in the economy invariably benefits those same people and entities. Consistent with the genius of the market, all funds left in the economy find their best and highest use, resulting in an expansion of the economy.

It is precisely because tax cuts increase the economic pie that Arthur Laffer is correct when he predicts that reduction in marginal tax rates results in an increase in GDP and, therefore, the ironic effect of actually increasing tax revenues. Conversely, the kinds of tax increases and new regulations Hillary Clinton advocates have the effect of preventing GDP growth or, more likely, lessening it, and result in far more losses of jobs, funds available for business, and opportunities than would otherwise be the case were the money left in the economy.

The ultimate irony is that it is government redistribution, not leaving money in the economy free of tax, that produces “trickle down” economics. Because government is so inefficient, far less than 100% of monies obtained from taxes actually reach those intended to benefit from any government program. The vast majority of the funds are consumed by the agencies that administer the programs and, to the extent money reaches the public, it is but a small subset, a literal “trickle down,” from the monies taxed.

Furthermore, Hillary Clinton’s political twist on taxation is that she will only tax the rich, but the fact remains the cost of the programs she advocates, not least of which is free education for everyone, demand tax receipts vastly in excess of those attainable from a tax on the rich alone. The middle class is targeted for tax increases under the Clinton plan and will surely be required to pay the lion’s share of the cost for the vast expansion in the welfare and regulatory state Hillary Clinton wishes to impose on the United States.